

CITY OF HOLSTEIN
INDEPENDENT ACCOUNTANT'S EXAMINATION REPORT
FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2013

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CITY OF HOLSTEIN

| <u>Name</u> | <u>TITLE</u> | <u>Term Expires</u> |
|---------------|--------------------|---------------------|
| Mary Gross | Mayor | January, 2016 |
| Dan Ehler | Council Member | January, 2014 |
| Julie Lukins | Council Member | January, 2014 |
| Todd Vohs | Council Member | January, 2014 |
| Kevin Heck | Council Member | January, 2016 |
| James Doxtad | Council Member | January, 2016 |
| Marlo Schoer | City Administrator | Indefinite |
| Renee Leonard | Deputy Clerk | Indefinite |
| Thad Cosgrove | Attorney | Indefinite |

HUNZELMAN, PUTZIER & CO., PLC

CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
JASON K. RAVELING
TAMMY M. CARLSON, C.P.A.
RICHARD R. MOORE, C.P.A. (RETIRED)
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W. J. HUNZELMAN, C.P.A. 1921-1997

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Independent Accountant's Examination Report

To the Honorable Mayor
and Members of City Council:

We have performed an examination of the City of Holstein pursuant to Chapter 11.6 of the Code of Iowa. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Holstein for the period July 1, 2012 through June 30, 2013. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed security bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended uniform chart of accounts and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2013 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
8. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
9. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
10. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.

11. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended chart of accounts.
12. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended chart of accounts and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
13. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the operations of the City of Holstein, the objective of which is the expression of opinions on financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Holstein, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Holstein and other parties to whom the City of Holstein may report. This report is not intended to be and should not be used by anyone other than these specified parties.

Hummelman, Putzier & Co., PLLC

March 26, 2014

DETAILED RECOMMENDATION

CITY OF HOLSTEIN
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

(A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts.

(C) Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations were not reviewed by an independent person.

Recommendation – Monthly bank reconciliations should be reviewed by an independent person.

(D) Petty Cash – The City's petty cash funds were not included in the City's accounting records and resulting fund balances.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City funds and accounts, including petty cash, should be included in the Clerk's accounting system.

CITY OF HOLSTEIN
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (E) Deposits – The City Council has not adopted a resolution naming official depositories as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

- (F) City Council Minutes – Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for three meetings tested were not published within fifteen days. In addition, minutes for three meetings tested did not include total disbursements for each fund as required by Chapter 372.13(6).

Recommendation – The City should comply with the Code of Iowa and publish City Council minutes within fifteen days, as required. The City should also include total disbursements for each fund in the publication of minutes, as required.

- (G) Certified Budget – Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the community culture and recreation, community and economic development, debt service, and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (H) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due to the City, and all expenditures...” The City’s Annual Financial Report included receipts and disbursements which do not agree with the amounts recorded in the City’s records.

Recommendation – The City should ensure the receipts and disbursements included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.

- (I) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title, and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Julie Lukins, Council Member, husband is owner of Lukins Construction | Labor and repair | \$935 |
| Marlo Schoer, City Administrator, husband owns S&S Sales | Supplies and parts | \$1,089 |

In accordance with chapter 362.5(3)(k) of the Code of Iowa, these transactions do not appear to represent conflicts of interest since the cumulative amounts were less than \$2,500 during the fiscal year.

CITY OF HOLSTEIN
DETAILED RECOMMENDATIONS
FOR THE PERIOD JULY 1, 2012 THROUGH JUNE 30, 2013

- (J) Annual Urban Renewal Report (AURR) – The following reporting exception on the Levy Authority Summary of the AURR report was noted:

Activity of the Special Revenue, Tax Increment Financing (TIF) Fund, including beginning and ending cash balances does not agree with the City's general ledger.

Recommendation – The City should ensure the amounts reported on the Levy Authority Summary agree with the City's records.

- (K) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City Clerk to report and remit outstanding obligations, including checks, trusts and bonds, held for more than two years to the Office of Treasurer of State annually. The City has not remitted unclaimed property to the Office of Treasurer of State annually.

Recommendation – The City should implement procedures to ensure outstanding checks, trusts, and bonds are reviewed annually and amounts over two years old are remitted to the Office of Treasurer of State, as required.

- (L) Approval of Disbursements – Recurring disbursements to vendors the Council has pre-approved to be paid before claims dates were not included on the list of disbursements approved in the City Council minutes and published in the newspaper.

Recommendation – The City should implement procedures to ensure all disbursements are included on the list provided to the City Council for approval as well as the list submitted to the newspaper for publication.

- (M) Payroll – City employees are required to complete time cards. the City Council approves all pay increases. The following were identified:

- Although time cards are maintained for all employees, there was no indication the time cards had been reviewed by appropriate supervisory personnel prior to preparation of the payroll.
- One time card showed 3.25 hours of overtime worked that was paid out at a regular rate instead of the overtime rate.
- The wage rate for a new recreation center employee was not approved by the Council. Instead, the rate was given verbally to the City by the recreation center director.

Recommendation – Time cards should be reviewed and approved by appropriate supervisory personnel prior to preparation of payroll. The approval should be evidenced by the signature or initials of the reviewer and the date of the review. Wages of employees should be adequately documented in the minutes of the City Council

- (N) Timely Filed Form 1099s – The IRS requires entities to file a Form 1099 for each person or entity, with the exception of corporations, to whom you have paid at least \$600 during the year for rents and services. The City did not file the required From 1099s for the calendar year 2012.

Recommendation – The City should file all required IRS tax form, including Form 1099s, for applicable payments made during the year.